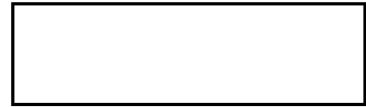


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INTERNATIONAL MONETARY DEVELOPMENTS: Following the release of the annual report of the Bank of International Settlements (BIS), which presented a pessimistic view of short-term prospects, the dollar reached record lows yesterday in Frankfurt, Amsterdam, and Copenhagen, and moved lower on all other major European exchange markets. The Bundesbank was forced to intervene to support the Dutch guilder after the mark's more rapid appreciation relative to the dollar left the guilder at its floor against the mark within the narrow European currency band. The amount of required intervention, however, was small. Italian officials are considering steps to halt the recent decline in the lira. Trading on most markets was relatively light. The price of gold rose \$2.50 an ounce in London to \$122.50 at the close of the trading day.

The dollar's decline is due to continuing uncertainty about the adequacy of the new US anti-inflationary program and the pessimistic atmosphere prevailing at the BIS annual meeting in Basle. Central bankers tend to agree with the BIS assessment that the short-term international economic outlook is bleak, and that the present high rate of world inflation will continue for some time, despite recent increases in interest rates in Belgium, Canada, the Netherlands, West Germany, and Japan. There reportedly was strong opposition to the US proposals for exchange adjustment on the basis of objective criteria, increasing doubts about the likelihood of agreement on monetary reform before the meeting of the International Monetary Fund in Nairobi in September.

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BRAZIL: President Medici's long-expected naming of Ernesto Geisel to succeed him when his term ends in March 1974 will ensure that Brazil's basic policy directions remain largely the same.

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[redacted] Geisel, a retired four-star general who has held high-level non-military government posts, is highly regarded by most senior officers. No problems should arise over his nomination. Geisel's name has been the most consistently mentioned since succession speculation began many months ago. In fact, no viable rival candidates ever emerged.

Geisel will be formally elected in January 1974 by an electoral college composed of Congress and other delegates chosen from each of the states. While basic policy will not change, Geisel's style and the composition of his government team will differ from those of Medici. Some Brazilian observers suggest that the new president may be disposed to a slight loosening of the restrictions on political activity. [redacted]

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ITALY: Hard bargaining on the terms for a new government will begin tomorrow when President Leone is expected to name a prime minister - designate. Interior Minister Mariano Rumor, leader of the Christian Democrats' largest faction, will probably be tapped. Rumor is a moderate who served as prime minister in center-left governments in 1968-69 and 1970.

The nominee will have the difficult task of carrying out negotiations aimed at bringing the Socialist Party back into the government after a year in the opposition. The Christian Democrats' resolve to move in that direction was emphasized Sunday by the selection of Senate President Amintore Fanfani as party secretary. Fanfani, one of the architects of the first "opening to the left" in 1962, was instrumental in the party's unified return to that theme at its recent national congress.

Although the Christian Democrats and Socialists clearly want to renew their collaboration, both parties remain divided over the exact form of a new partnership. Some Christian Democrats and Socialists prefer a transition period during which the Socialists would remain outside the coalition but support the government in parliament. The Socialists' left-wing minority is reportedly lobbying for such an arrangement, although the party's majority is apparently eager for full coalition status.

Several longer range and more basic issues must also be faced. The Socialists' potential partners--especially the Christian Democrats and Social Democrats--will seek assurances that the Socialists will not gravitate toward the Communist opposition as they did in the former center-left period. Bargaining will also be complicated by the smaller parties' call for agreement in advance on specific reform programs. [redacted]

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JAPAN: Beginning next April, Tokyo will reverse its policy of restricting rice production. The move comes in the wake of growing Japanese concern over the availability of feed grains from the US and other countries, as well as the continuing demands for rice from other Asian countries. The policy change could boost production by about ten percent, or roughly a million metric tons, but this additional supply would not be available before late next year. Crop diversion payments will still be authorized for riceland where alternative crops are grown. By selling rice at the government procurement price, farmers could earn at least double the subsidy they now receive for leaving the land fallow. The measure may have been timed to bolster farm support for the ruling party just prior to the July 1974 elections for the Upper House of the Diet. Two years ago the Liberal Democrats lost several seats in that chamber because of farmer discontent with their rice support policies. Now faced with a possible loss of his party's majority in the Upper House, Prime Minister Tanaka seems determined to woo back old friends. [redacted]

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